

**REPORT OF THE AUDIT OF THE
BOYD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOYD COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Boyd County Fiscal Court for fiscal year ended June 30, 2011. We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, and each major fund of Boyd County, Kentucky.

The financial statements of the Boyd County Sanitation District No. 4, a discretely presented component unit, have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Boyd County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit.

Financial Condition:

The fiscal court had total net assets of \$8,092,323 as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,552,340 in its governmental activities as of June 30, 2011, with total net assets of \$8,033,605. In its business-type activities, total net cash and cash equivalents were \$54,010 with total net assets of \$58,718. The fiscal court's discretely presented component unit had net assets of \$5,832,641 as of June 30, 2011. The discretely presented component unit had net cash and cash equivalents of \$723,100. The fiscal court had total debt principal as of June 30, 2011 of \$46,061,866 with \$2,023,723 due within the next year. The discretely presented component units had total debt principal as of June 30, 2011 of \$2,505,301 with \$425,615 due within the next year.

Report Comments:

- 2011-01 The Fourth Quarter Report Was Submitted With Substantial Errors
- 2011-02 The General And Road Funds Have Deficits Totaling \$88,190
- 2011-03 Expenditures Should Not Exceed Budgeted Appropriations
- 2011-04 All Transfers Should Be Approved By The Fiscal Court
- 2011-05 The County Treasurer Should Not Pay Claims Without Fiscal Court Approval
- 2011-06 Truck License Receipts Should Be Deposited Into The Road Fund
- 2011-07 Local Government Economic Assistance Funds Should Be Spent Properly
- 2011-08 Quarterly Financial Reports Were Submitted Late To The Department For Local Government
- 2011-09 The County Should Bid All Expenditures Over \$20,000
- 2011-10 Invoices Should Be Paid Within Thirty Working Days
- 2011-11 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2011-12 The County Treasurer Should Properly Prepare A County Settlement And Present It To The Fiscal Court For Approval
- 2011-13 The Fiscal Court Should Strengthen Internal Controls Over Accounting Records
- 2011-14 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes
- 2011-15 The Jail Lacks Adequate Segregation Of Duties Over Commissary Transactions
- 2011-16 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis
- 2011-17 Timesheets Should Be Properly Approved

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable William C. Stevens, Boyd County Judge/Executive
Members of the Boyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of Boyd County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Boyd County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Boyd County Sanitation District No. 4, a discretely presented component unit, which represents 100 percent of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boyd County Sanitation District No. 4 is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Boyd County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of Boyd County Sanitation District No. 4, a discretely presented component unit of the Boyd County Fiscal Court, as presented in accordance with the accrual basis of accounting and therefore, include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.



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In our opinion, based upon our report and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Boyd County Sanitation District No. 4's financial statements been prepared using the same basis of accounting as Boyd County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of Boyd County, Kentucky, as of June 30, 2011, and the changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Boyd County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Boyd County, Kentucky's basic financial statements. The accompanying supplementary information, and combining fund financial statements, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2012 on our consideration of Boyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2011-01 The Fourth Quarter Report Was Submitted With Substantial Errors
- 2011-02 The General And Road Funds Have Deficits Totaling \$88,190
- 2011-03 Expenditures Should Not Exceed Budgeted Appropriations
- 2011-04 All Transfers Should Be Approved By The Fiscal Court
- 2011-05 The County Treasurer Should Not Pay Claims Without Fiscal Court Approval
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- 2011-16 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis
- 2011-17 Timesheets Should Be Properly Approved

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 22, 2012

BOYD COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

William C. Stevens	County Judge/Executive
David Salisbury	Commissioner
Tom Jackson	Commissioner
Carl Tolliver	Commissioner

Other Elected Officials:

Phillip Hedrick	County Attorney
Joe Burchett	Jailer
Debbie Jones	County Clerk
Linda Baker	Circuit Court Clerk
Terry Keelin	Sheriff
Charles Adkins	Property Valuation Administrator
Mark Hammond	Coroner

Appointed Personnel:

Billie Zellers	County Treasurer
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BOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

BOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,788,093	\$ 54,010	\$ 1,842,103	\$ 723,100
Notes Receivable				1,926
Accounts Receivable				641,488
Total Current Assets	1,788,093	54,010	1,842,103	1,366,514
Noncurrent Assets:				
Notes Receivable	440,000		440,000	38,141
Restricted Cash				82,314
Intangible Assets - Net of Accumulated Depreciation	366,843		366,843	18,867
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	5,022,169		5,022,169	
Buildings and Building Improvements	23,636,996		23,636,996	
Vehicles and Equipment	1,346,583	4,708	1,351,291	
Transmission Lines and Equipment	13,509,945		13,509,945	6,832,106
Infrastructure	7,984,842		7,984,842	
Total Noncurrent Assets	52,307,378	4,708	52,312,086	6,971,428
Total Assets	54,095,471	58,718	54,154,189	8,337,942
LIABILITIES				
Current Liabilities:				
Accounts Payable				273,591
Accrued Payroll Liabilities				5,347
Accrued Interest Payable				43,641
Lawsuit Settlement Payable				40,000
Bonds Payable	1,250,000		1,250,000	55,000
Financing Obligations Payable	773,723		773,723	8,036
Total Current Liabilities	2,023,723		2,023,723	425,615
Noncurrent Liabilities:				
Lawsuit Settlement Payable				40,000
Bonds Payable	28,765,000		28,765,000	1,864,000
Financing Obligations Payable	15,273,143		15,273,143	175,686
Total Noncurrent Liabilities	44,038,143		44,038,143	2,079,686
Total Liabilities	46,061,866		46,061,866	2,505,301
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	6,245,512	4,708	6,250,220	4,729,384
Restricted For:				
Roads	235,753		235,753	
Loan Payments				11,173
Unrestricted	1,552,340	54,010	1,606,350	1,092,084
Total Net Assets	\$ 8,033,605	\$ 58,718	\$ 8,092,323	\$ 5,832,641

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

BOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,008,821	\$ 795,099	\$ 3,514,276	\$
Protection to Persons and Property	4,758,195	779,415	97,794	
General Health and Sanitation	2,011,135	47,835		
Social Services	16,028			
Recreation and Culture	777,602			
Roads	3,174,398	1,455	987,000	486,486
Airports	20,000			
Road Facilities	20,372			
Interest on Long-Term Debt	2,148,316			
Capital Projects	2,457,797			
Total Governmental Activities	23,392,664	1,623,804	4,599,070	486,486
Business-type Activities:				
Jail Canteen	148,391	132,914		
Total Business-type Activities	148,391	132,914		
Total Primary Government	\$ 23,541,055	\$ 1,756,718	\$ 4,599,070	\$ 486,486
Component Units:				
Boyd County Sanitation District No. 4	\$ 2,976,304	\$ 2,898,390	\$ 39,121	\$

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Net Profits Tax

E-911 Tariff

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (3,699,446)	\$	\$ (3,699,446)	\$
(3,880,986)		(3,880,986)	
(1,963,300)		(1,963,300)	
(16,028)		(16,028)	
(777,602)		(777,602)	
(1,699,457)		(1,699,457)	
(20,000)		(20,000)	
(20,372)		(20,372)	
(2,148,316)		(2,148,316)	
(2,457,797)		(2,457,797)	
(16,683,304)		(16,683,304)	
	(15,477)	(15,477)	
	(15,477)	(15,477)	
(16,683,304)	(15,477)	(16,698,781)	
			(38,793)
3,161,812		3,161,812	
135,134		135,134	
341,984		341,984	
3,780,898		3,780,898	
495,867		495,867	
1,066,915		1,066,915	
1,797,776		1,797,776	
161,507		161,507	
63,251	131	63,382	3,944
1,572,197	765	1,572,962	
12,577,341	896	12,578,237	3,944
(4,105,963)	(14,581)	(4,120,544)	(34,849)
12,139,568	73,299	12,212,867	5,867,490
\$ 8,033,605	\$ 58,718	\$ 8,092,323	\$ 5,832,641

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

BOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Local Government Economic Assistance Fund	Revolving Loan Fund	Sewer Fund
ASSETS					
Cash and Cash Equivalents	\$ 238,556	\$	\$ 235,753	\$ 16,474	\$ 664,217
Total Assets	<u>238,556</u>	<u></u>	<u>235,753</u>	<u>16,474</u>	<u>664,217</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Short-term Debt	300,000				
Cash Shortage		26,746			
Total Liabilities	<u>300,000</u>	<u>26,746</u>			
FUND BALANCES					
Restricted For:					
Roads			235,753		
Assigned To:					
Debt Service					664,217
Unassigned	<u>(61,444)</u>	<u>(26,746)</u>		<u>16,474</u>	
Total Fund Balances	<u>(61,444)</u>	<u>(26,746)</u>	<u>235,753</u>	<u>16,474</u>	<u>664,217</u>
Total Liabilities and Fund Balances	<u>\$ 238,556</u>	<u>\$ 0</u>	<u>\$ 235,753</u>	<u>\$ 16,474</u>	<u>\$ 664,217</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,488,093
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	72,905,917
Accumulated Depreciation	(21,405,382)
Debt Issue Costs Incurred In Governmental Activities Are Expensed At The Fund Level, While Amortized Over The Life Of The Debt At The Government-Wide Level.	366,843
Loans To, And Payments On Behalf Of Other Governmental Agencies Are Expensed At The Fund Level While Reflected As Receivable From The Outside Agency At The Government-Wide Level.	440,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(15,746,866)
Bonds	<u>(30,015,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,033,605</u>

The accompanying notes are an integral part of the financial statements.

BOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Capital Projects Corporation Fund	Total Governmental Funds
<u>\$ 659,839</u>	<u>\$ 1,814,839</u>
<u>659,839</u>	<u>1,814,839</u>
	300,000
	<u>26,746</u>
	<u>326,746</u>
	235,753
659,839	1,324,056
	<u>(71,716)</u>
<u>659,839</u>	<u>1,488,093</u>
<u>\$ 659,839</u>	<u>\$ 1,814,839</u>

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Local Government Economic Assistance Fund	Revolving Loan Fund
REVENUES				
Taxes	\$ 10,649,995	\$	\$	\$
In Lieu Tax Payments	129,636			
Excess Fees	161,507			
Licenses and Permits	2,260			
Intergovernmental	3,771,513	1,398,710	259,842	
Charges for Services	274,695	1,455		
Miscellaneous	1,058,708	82,714		
Interest	50,810	1,012	792	166
Total Revenues	<u>16,099,124</u>	<u>1,483,891</u>	<u>260,634</u>	<u>166</u>
EXPENDITURES				
General Government	4,407,420			116,388
Protection to Persons and Property	4,025,494			
General Health and Sanitation	679,463			
Social Services			16,028	
Recreation and Culture	732,693		10,000	
Roads		2,472,725		
Airports			20,000	
Road Facilities		20,372		
Debt Service	2,221,102	64,981		
Capital Projects				
Administration	3,473,462	406,068		
Total Expenditures	<u>15,539,634</u>	<u>2,964,146</u>	<u>46,028</u>	<u>116,388</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>559,490</u>	<u>(1,480,255)</u>	<u>214,606</u>	<u>(116,222)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	2,029,302			
General Obligation Refunding and Improvement Bond Proceeds	2,700,000			
Premium on Bond Issuance	13,094			
General Obligation Refunding Bond Proceeds				
Discount on Bond Issuance				
Transfers From Other Funds	731,379	1,742,818		28,634
Transfers To Other Funds	(6,171,040)	(404,241)	(288)	
Total Other Financing Sources (Uses)	<u>(697,265)</u>	<u>1,338,577</u>	<u>(288)</u>	<u>28,634</u>
Net Change in Fund Balances	(137,775)	(141,678)	214,318	(87,588)
Fund Balances - Beginning (Restated)	76,331	114,932	21,435	104,062
Fund Balances - Ending	<u>\$ (61,444)</u>	<u>\$ (26,746)</u>	<u>\$ 235,753</u>	<u>\$ 16,474</u>

The accompanying notes are an integral part of the financial statements.

BOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Sewer Fund	Capital Projects Corporation Fund	Total Governmental Funds
\$	\$	\$ 10,649,995
		129,636
		161,507
		2,260
	1,432,415	6,862,480
		276,150
		1,141,422
9,719	752	63,251
9,719	1,433,167	19,286,701
		4,523,808
		4,025,494
		679,463
		16,028
		742,693
		2,472,725
		20,000
		20,372
1,271,018	4,113,756	7,670,857
16,449	2,423,147	2,439,596
1,500	39,950	3,920,980
1,288,967	6,576,853	26,532,016
(1,279,248)	(5,143,686)	(7,245,315)
		2,029,302
		2,700,000
		13,094
	2,050,000	2,050,000
	(24,207)	(24,207)
1,226,500	3,360,566	7,089,897
	(514,328)	(7,089,897)
1,226,500	4,872,031	6,768,189
(52,748)	(271,655)	(477,126)
716,965	931,494	1,965,219
\$ 664,217	\$ 659,839	\$ 1,488,093

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (477,126)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	538,355
Depreciation Expense	(2,894,238)
Assets disposed of, net book value	(12,594)

Governmental entities report loans made to and payments received from other entities as revenues and expenditures, however, in the Statement Of Activities those amounts are not recorded because they are a reduction of corresponding assets and liabilities.

Notes Receivable	(20,000)
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The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Debt Issue Costs Amortization	(18,201)
Financing Obligation Proceeds	(2,029,302)
Financing Obligations Principal Payments	4,377,143
Bond Proceeds	(4,750,000)
Bond Principal Payments	<u>1,180,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (4,105,963)</u></u>
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BOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

BOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 54,010
Total Current Assets	<u>54,010</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	23,540
Less Accumulated Depreciation	<u>(18,832)</u>
Total Noncurrent Assets	<u>4,708</u>
Total Assets	<u>58,718</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	4,708
Unrestricted	<u>54,010</u>
Total Net Assets	<u><u>\$ 58,718</u></u>

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 132,840
Miscellaneous	74
Total Operating Revenues	<u>132,914</u>
Operating Expenses	
Cost of Sales	86,089
Recreation and Entertainment	47,079
Depreciation	4,708
Total Operating Expenses	<u>137,876</u>
Operating Income (Loss)	<u>(4,962)</u>
Nonoperating Revenues (Expenses)	
Interest Income	131
Inmate Pay From State	765
Inmate Refunds	<u>(10,515)</u>
Total Nonoperating Revenues (Expenses)	<u>(9,619)</u>
Change In Net Assets	(14,581)
Total Net Assets - Beginning (Restated)	<u>73,299</u>
Total Net Assets - Ending	<u><u>\$ 58,718</u></u>

The accompanying notes are an integral part of the financial statements.

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BOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

BOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 132,840
Cash Payments to Vendors	(86,089)
Cash Payments for Recreation and Maintenance	(47,079)
Cash Receipts for Miscellaneous	74
Net Cash Provided (Used) By Operating Activities	(254)
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	765
Inmate Refunds on Accounts	(10,515)
Net Cash Provided (Used) By Noncapital Financing Activities	(9,750)
Cash Flows From Investing Activities	
Interest Earned	131
Net Cash Provided (Used) By Investing Activities	131
Net Increase (Decrease) in Cash and Cash Equivalents	(9,873)
Cash and Cash Equivalents - July 1	63,883
Cash and Cash Equivalents - June 30	\$ 54,010
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	\$ (4,962)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	4,708
Net Cash Provided (Used) By Operating Activities	\$ (254)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. However, the financial statements of the Boyd County Sanitation District No. 4, a discretely presented component unit, is prepared on the accrual basis, in accordance with accounting principles generally accepted in the United States of America. The financial information of this discretely presented component unit is included in the government-wide Statement of Net Assets and Statement of Activities.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Boyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Boyd County Capital Projects Corporation

The Boyd County Capital Projects Corporation (BCCPC) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The BCCPC's governing body consists entirely of Fiscal Court members. Therefore, management must include the BCCPC as a component unit, and the BCCPC's financial activity has been blended with that of the Fiscal Court.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The component unit column in the government-wide financial statements includes the data for the Boyd County Sanitation District No. 4. This is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as “Component Unit” to emphasize this organization’s separateness from the fiscal court’s primary government.

Boyd County Sanitation District No. 4

The Boyd County Fiscal Court appoints all of the Boyd County Sanitation District No. 4’s (SD4) governing board. As of April 1, 2009, SD4 began operating under an agreement to operate and maintain certain sewer facilities that were previously operated by the Boyd County Fiscal Court. The agreement requires the Boyd County Fiscal Court to subsidize SD4 financially by paying SD4 15% of all sums collected under the tax on wages earned in the county, pursuant to the County’s Occupational License Fee. All capital assets necessary for the operation and maintenance of the former Boyd County Sanitary Sewer System are leased to SD4 at the rate of \$1 per year until the debt secured by such assets is satisfied in full. The financial information for SD4 is presented discretely within Boyd County’s financial statements.

Audited financial statements for the Sanitation District No. 4 of Boyd County, Kentucky, a discretely presented component unit, may be requested by contacting the Sanitation District No. 4 of Boyd County, Kentucky, 831 State Route 716, Ashland, Kentucky, 41102.

C. Boyd County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Boyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Boyd County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function. In compliance with GASB 54, the Jail Fund and County Emergency Fund, both previously reported as separate funds will now be combined and presented in the General Fund.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, as well as industrial and economic development. In no event shall these funds be used for expenses relating to administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Revolving Loan Fund – This fund is used to account for resources employed for economic development and stimulating the local economy through capital outlay and other programs.

Sewer Fund – This fund accounts for construction grants received for the construction of additional sewer lines and the debt service payments on debt incurred for the construction of sewer lines. The sewer system is now maintained and operated by Boyd County Sanitation District No. 4 in Boyd County.

Capital Projects Corporation Fund – This fund accounts for the financing and construction of major capital facilities. This fund is involved with the jail expansion project, the road department building, the jail/pedway project, and the new justice center project.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund and Revolving Loan Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Debt Service Funds:

The Sewer Fund and Capital Projects Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Units

The financial statements present the following major discretely presented component unit: Boyd County Sanitation District No. 4.

This component unit is presented on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund (Proprietary Fund) or the Capital Projects Corporation Fund (Capital Projects Fund) to be budgeted.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup and Lawrence. The Boyd/Greenup Riverport Authority also meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd and Greenup. In addition, the 911 Board (Regional Public Safety Communication Center) and the Airport Board meet the above criteria. The 911 Board is jointly governed by Boyd County and the cities of Ashland and Catlettsburg. The Airport Board is jointly governed by Boyd County and the city of Ashland. Separately issued financial statements can be obtained from the respective authorities.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

	General Fund	Road Fund	LGEA Fund	Sewer Fund	Capital Projects Fund	Revolving Loan Fund	Total Transfers In
General Fund	\$	\$ 1,742,818	\$	\$ 1,226,500	\$ 3,173,376	\$ 28,346	\$ 6,171,040
Road Fund	217,051				187,190		404,241
LGEA Fund						288	288
Sewer Fund							0
Capital Projects Fund	514,328						514,328
Revolving Loan Fund							0
Total Transfers Out	\$ 731,379	\$ 1,742,818	\$ 0	\$ 1,226,500	\$ 3,360,566	\$ 28,634	\$ 7,089,897

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 5,022,169	\$	\$	\$ 5,022,169
Construction In Progress	16,767,703	14,567	(16,782,270)	
Total Capital Assets Not Being Depreciated	21,789,872	14,567	(16,782,270)	5,022,169
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	10,268,062	16,782,270		27,050,332
Vehicles and Equipment	3,450,632	209,205	(111,208)	3,548,629
Transmission Lines and Equipment	26,693,997			26,693,997
Infrastructure	10,276,207	314,583		10,590,790
Total Capital Assets Being Depreciated	50,688,898	17,306,058	(111,208)	67,883,748
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(2,763,004)	(650,332)		(3,413,336)
Vehicles and Equipment	(1,914,642)	(386,018)	98,614	(2,202,046)
Transmission Lines and Equipment	(11,855,703)	(1,328,349)		(13,184,052)
Infrastructure	(2,076,409)	(529,539)		(2,605,948)
Total Accumulated Depreciation	(18,609,758)	(2,894,238)	98,614	(21,405,382)
Total Capital Assets, Being Depreciated, Net	32,079,140	14,411,820	(12,594)	46,478,366
Governmental Activities Capital Assets, Net	<u>\$ 53,869,012</u>	<u>\$ 14,426,387</u>	<u>\$ (16,794,864)</u>	<u>\$ 51,500,535</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 533,934
Protection to Persons and Property	211,632
General Health and Sanitation	1,331,672
Recreation and Culture	34,909
Roads, Including Depreciation of General Infrastructure Assets	<u>782,091</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,894,238</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 23,540	\$	\$	\$ 23,540
Total Capital Assets Being Depreciated	23,540			23,540
Less Accumulated Depreciation For:				
Vehicles and Equipment	(14,124)	(4,708)		(18,832)
Total Accumulated Depreciation	(14,124)	(4,708)		(18,832)
Total Capital Assets, Being Depreciated, Net	9,416	(4,708)		4,708
Business-Type Activities Capital Assets, Net	<u>\$ 9,416</u>	<u>\$ (4,708)</u>	<u>\$ 0</u>	<u>\$ 4,708</u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities:</u>	
Jail Canteen	\$ 4,708
Total Depreciation Expense - Business-Type Activities	<u>\$ 4,708</u>

Note 5. Receivable

On January 12, 2006, Boyd County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) on behalf of the Boyd/Greenup Riverport Authority (Riverport Authority). Lease proceeds of \$500,000 were paid directly to the Riverport Authority. The Riverport Authority makes scheduled lease payments directly to KACoLT. A receivable due from the Riverport Authority in the amount of the lease principal outstanding is included on the financial statements. The repayment schedule for the Riverport Authority is identical to the repayment schedule for the lease. As of June 30, 2011, the amount of the receivable was \$440,000. The receivable amount corresponds to the KACoLT Lease – Boyd/Greenup Riverport Authority outstanding of June 30, 2011. (See Note 7.B)

Note 6. Short-term Debt

- A. On July 23, 2010, the Boyd County Fiscal Court issued Tax Anticipation Notes in the amount of \$2,400,000. The purpose of the notes was to meet current expenses and they matured on June 30, 2011. The principal balance of the notes was paid in full as of June 30, 2011.
- B. On June 29, 2011, the Boyd County Fiscal Court entered into a short-term loan with Kentucky Farmers Bank in the amount of \$300,000. The purpose of the loan was to cover payroll and other operating expenses and it matured on July 29, 2011. As of June 30, 2011, the principal balance of the loan was \$300,000.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Short-term Debt (Continued)

C. Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$	\$ 2,700,000	\$2,400,000	\$ 300,000	\$ 300,000
Governmental-type Activities					
Short-term Liabilities	\$ 0	\$ 2,700,000	\$ 2,400,000	\$ 300,000	\$ 300,000

Note 7. Long-term Debt

A. KADD Financing Obligation – County Detention Center

On June 20, 2002, Boyd County entered into a financing obligation agreement with the Kentucky Area Development District Financing Trust (KADD) for additional financing for the detention center project. The agreement was for \$2,165,000 at an average interest rate of 5.25%. The agreement has a term of 30 years with a maturity date of November 20, 2032. Payments are due semi-annually on May 20th and November 20th of each year. On October 20, 2010, this lease agreement was paid in full when the county issued General Obligation Refunding and Improvement Bonds in the amount of \$2,050,000 (see Note Q).

B. KACO Financing Obligation – Boyd/Greenup Riverport Authority

On January 12, 2006, Boyd County entered into a financing obligation agreement with the Kentucky Association of Counties on behalf of the Boyd/Greenup Riverport Authority. The agreement was for \$500,000 with a variable interest rate. The agreement has a term of 28 years with a maturity date of July 20, 2033. Interest payments are due monthly with one principal payment due on July 20th of each year. The amount outstanding under this agreement was \$440,000 at June 30, 2011. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012		\$ 18,923
2013	10,000	18,492
2014	10,000	18,071
2015	10,000	17,641
2016	10,000	17,236
2017-2021	75,000	76,742
2022-2026	95,000	58,898
2027-2031	135,000	34,169
2032-2034	95,000	5,033
Totals	\$ 440,000	\$ 265,205

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

C. General Obligation Bonds – Series 2004

On May 28, 2004, the Boyd County Capital Projects Corporation issued general obligation refunding and improvement bonds, series 2004 in the amount of \$3,755,000. The proceeds of this issue were used to finance various projects including the detention center, vehicle maintenance, and transportation facility projects. The bonds were issued at variable interest rates ranging from 2.0% to 4.7% with a retirement date of March 1, 2024. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on March 1st and September 1st of each year. The outstanding bond principal at June 30, 2011 was \$1,440,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 370,000	\$ 58,468
2013	70,000	45,980
2014	75,000	43,356
2015	80,000	40,542
2016	80,000	37,342
2017-2021	445,000	134,208
2022-2024	320,000	30,636
Totals	<u>\$ 1,440,000</u>	<u>\$ 390,532</u>

D. General Obligation Bonds – Series 2005

On March 1, 2005, the Boyd County Capital Projects Corporation issued general obligation public project improvement bonds, series 2005 in the amount of \$3,500,000. The proceeds of this issue were used to finance the completion of the detention center and transportation facilities projects. The bonds were issued with an average interest rate of 5.0% with a retirement date of March 1, 2035. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on March 1st and September 1st of each year. The outstanding bond principal at June 30, 2011 was \$3,155,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 80,000	\$ 157,065
2013	80,000	153,545
2014	85,000	150,025
2015	90,000	146,115
2016	90,000	141,975
2017-2021	500,000	639,875
2022-2026	635,000	501,625
2027-2031	795,000	327,875
2032-2035	800,000	104,550
Totals	<u>\$ 3,155,000</u>	<u>\$ 2,322,650</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

E. KADD Financing Obligation – County Detention Center

On July 17, 2006, Boyd County entered into a financing obligation agreement with the Kentucky Area Development District (KADD) for additional financing for the completion of the jail and prisoner pedway project. The agreement was for \$2,000,000 at an average interest rate of 5.05%. The agreement has a term of 30 years with a maturity of May 1, 2036. Payments are due semi-annually on November 1st and May 1st of each year. The amount outstanding under this agreement was \$1,810,000 as of June 30, 2011. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 40,000	\$ 93,588
2013	40,000	90,768
2014	40,000	88,948
2015	45,000	87,048
2016	45,000	84,910
2017-2021	270,000	388,625
2022-2026	340,000	314,215
2027-2031	435,000	216,619
2032-2036	555,000	91,812
Totals	<u>\$ 1,810,000</u>	<u>\$ 1,456,533</u>

F. First Mortgage Revenue Bonds Series 2007- Justice Center

On July 1, 2007, the Boyd County Capital Projects Corporation issued first mortgage revenue bonds to provide funding for the construction of the Boyd County Judicial Center. The total bond issue was in the amount of \$18,855,000, with interest rates varying between 4.125% and 4.625%. Interest is payable on February 1 and August 1 of each year. At the date of sale, there was \$38,706 in accrued interest that was remitted to the Public Properties Corporation along with the bond proceeds. Funding of the debt service is provided by a lease arrangement with the Commonwealth of Kentucky Administrative Office of the Courts. Bonds outstanding as of June 20, 2011 were \$16,885,000. Debt service requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 710,000	\$ 726,256
2013	735,000	696,453
2014	760,000	665,619
2015	790,000	633,650
2016	825,000	600,341
2017-2021	4,640,000	2,437,125
2022-2026	5,745,000	1,300,406
2027-2028	2,680,000	130,338
Totals	<u>\$ 16,885,000</u>	<u>\$ 7,190,188</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

G. KACo Financing Obligation – Mack Trucks

On December 15, 2008, Boyd County borrowed \$207,918 under a financing obligation agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of two trucks for the road department. The agreement has a variable interest rate and has a maturity date of December 20, 2013. The outstanding principal at June 30, 2011 was \$162,918. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 50,000	\$ 6,057
2013	55,000	3,852
2014	57,918	1,352
Totals	<u>\$ 162,918</u>	<u>\$ 11,261</u>

H. Daimler Truck Financial – Sterling Trucks

On December 22, 2009, Boyd County borrowed \$246,020 under a financing obligation agreement with Daimler Truck Financial to finance the purchase of two trucks for the road department. The agreement carries an interest rate of 4.79% and has a maturity date of December 22, 2014. The outstanding principal at June 30, 2011 was \$201,309. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 46,853	\$ 9,641
2013	49,096	7,397
2014	51,448	5,046
2015	53,912	2,582
Totals	<u>\$ 201,309</u>	<u>\$ 24,666</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

I. KADD Agreement – Sewer Line Extension

On August 13, 2003, Boyd County entered into a financing obligation agreement with the Kentucky Area Development District Financing Trust (KADD) to finance the county's sewer line extension project. The agreement was for \$8,925,000 at an average interest rate of 5.48%. The agreement has a term of 30 years with a maturity date of April 20, 2033. Annual principal payments are due on April 20th of each year and semi-annual interest payments are due on April 20th and October 20th of each year. The outstanding principal at June 30, 2011 was \$7,555,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 195,000	\$ 412,223
2013	205,000	404,228
2014	215,000	395,618
2015	225,000	386,265
2016	235,000	375,915
2017-2021	1,355,000	1,688,453
2022-2026	1,745,000	1,278,083
2027-2031	2,280,000	725,215
2032-2033	1,100,000	96,738
Totals	<u>\$ 7,555,000</u>	<u>\$ 5,762,737</u>

J. KADD Agreement – Sewer Line Extension

On August 5, 2004, Boyd County entered into a second financing obligation agreement with the Kentucky Area Development District Financing Trust (KADD) for additional financing of the county's sewer line extension project. The agreement was for \$490,000 at an average interest rate of 5.06%. The agreement has a term of 20 years with a maturity date of August 20, 2024. Annual principal payments are due on August 20th of each year and semi-annual interest payments are due on February 20th and August 20th of each year. The outstanding principal at June 30, 2011 was \$390,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 20,000	\$ 20,695
2013	20,000	19,745
2014	20,000	18,795
2015	25,000	17,720
2016	25,000	16,458
2017-2021	140,000	60,973
2022-2025	140,000	17,948
Totals	<u>\$ 390,000</u>	<u>\$ 172,334</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

K. KADD Agreement – Sewer Line Extension

On May 12, 2005, Boyd County entered into a third financing obligation agreement with the Kentucky Area Development District Financing Trust (KADD) for additional financing of the county's sewer line extension project. The agreement was for \$5,000,000 at an average interest rate of 5.15%. The agreement has a term of 30 years with a maturity date of June 1, 2035. Annual principal payments are due on June 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. The outstanding principal at June 30, 2011 was \$4,535,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 105,000	\$ 233,983
2013	110,000	229,520
2014	115,000	224,625
2015	120,000	219,508
2016	125,000	214,168
2017-2021	710,000	970,848
2022-2026	910,000	769,873
2027-2031	1,170,000	507,613
2032-2035	1,170,000	162,500
Totals	<u>\$ 4,535,000</u>	<u>\$ 3,532,638</u>

L. KADD Agreement – Sewer Line Extension

On June 10, 2005, Boyd County entered into a fourth financing obligation agreement with the Kentucky Area Development District Financing Trust (KADD) for additional financing of the county's sewer line extension project. This agreement also refinanced an existing KADD agreement from 1997. The agreement was for \$365,000 at an average interest rate of 5.24%. The agreement has a term of 23 years with a maturity date of June 1, 2028. Annual principal payments are due on June 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. The outstanding principal at June 30, 2011 was \$305,000. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 10,000	\$ 16,537
2013	10,000	16,083
2014	10,000	15,628
2015	15,000	15,171
2016	15,000	14,489
2017-2021	80,000	60,405
2022-2026	110,000	35,953
2027-2028	55,000	5,576
Totals	<u>\$ 305,000</u>	<u>\$ 179,842</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

M. General Obligation Bonds – Series 2006

On December 29, 2006, the Boyd County Capital Projects Corporation issued general obligation public improvement bonds, series 2006 in the amount of \$4,000,000. The proceeds of this issue were used to finance the costs of the acquisition, construction, installation and equipping of improvements to the county sewer system. The bonds were issued with an average interest rate of 4.5% with a retirement date of December 1, 2036. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. The outstanding bond principal at June 30, 2011 was \$3,785,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 75,000	\$ 177,888
2013	80,000	174,710
2014	85,000	171,285
2015	85,000	167,715
2016	90,000	163,995
2017-2021	525,000	754,733
2022-2026	665,000	617,954
2027-2031	850,000	438,176
2032-2036	1,080,000	206,343
2037	250,000	6,125
Totals	<u>\$ 3,785,000</u>	<u>\$ 2,878,924</u>

N. Financing Obligation – Town Square Bank

On March 5, 2010, the Boyd County Fiscal Court entered into a financing obligation with Town Square Bank in the amount of \$350,000 as a line-of-credit. As of June 30, 2010, the county received \$340,768 from Town Square Bank that was used for baseball field renovations. The agreement has a variable interest rate, with a current rate of 4.0%. Annual interest payments begin March 5, 2011 and all outstanding principal plus accrued unpaid interest is payable on August 5, 2015. The outstanding principal as of June 30, 2011 was \$340,768. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012		\$ 12,022
2013		12,022
2014		12,022
2015		12,022
2016	340,768	12,022
Totals	<u>\$ 340,768</u>	<u>\$ 60,110</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

O. Financing Obligation – Courthouse Renovation

On July 2, 2010, Boyd County Fiscal Court entered into a lease agreement with The Huntington National Bank in the amount of \$2,000,000 for repairs and renovation of the courthouse. The agreement has an interest rate of 3.7% and a term of 10 years with a maturity date of June 20, 2020. Interest payments are due monthly with one principal payment due on May 20th of each year. In March 2011, this lease agreement was paid in full when the county issued General Obligation Refunding and Improvement Bonds in the amount of \$2,700,000 (see Note P).

P. US Bank – Refunding Courthouse Renovation

On March 31, 2011, the Boyd County Fiscal Court issued general obligation public improvement bonds, series 2011 in the amount of \$2,700,000. The proceeds of this issue were used to pay The Huntington National Bank \$2,000,000 lease agreement in full, with the remaining funds to be used to complete the repairs and renovation of the courthouse. The bonds were issued with an average interest rate of 2.7% with a retirement date of March 1, 2025. Annual principal payments are due on March 1st of each year and semi-annual interest payments are due on March 1st and September 1st of each year. The outstanding bond principal at June 30, 2011 was \$2,700,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012		\$ 65,327
2013	310,000	71,050
2014	305,000	64,850
2015	305,000	58,750
2016	305,000	52,650
2017-2021	1,255,000	137,975
2022-2025	220,000	20,938
Totals	<u>\$ 2,700,000</u>	<u>\$ 471,540</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

Q. General Obligation Bonds – Series 2011

On September 1, 2010, Boyd County issued general obligation refunding bonds, series 2011 in the amount of \$2,050,000. The proceeds of this issue were used to pay off a detention center project debt with the Kentucky Area Development District (KADD). The bonds were issued with an average interest rate of 3.6% with a retirement date of June 1, 2033. Annual principal payments are due on December 1st of each year and semi-annual interest payments are due on June 1st and December 1st of each year. The outstanding bond principal at June 30, 2011 was \$2,050,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 15,000	\$ 65,975
2013	70,000	65,338
2014	70,000	64,288
2015	75,000	63,106
2016	75,000	61,794
2017-2021	415,000	282,552
2022-2026	480,000	216,357
2027-2031	580,000	114,200
2032-2033	270,000	11,000
Totals	<u>\$ 2,050,000</u>	<u>\$ 944,610</u>

R. Financing Obligation – 2011 Ford Crown Victoria

On December 1, 2010, the Boyd County Fiscal Court entered into a lease agreement with Town Square Bank in the amount of \$29,302 for a 2011 Ford Crown Victoria. The agreement has an interest rate of 5.99%. The amount of \$569 is due on the 15th of each month which includes principal and interest. The outstanding principal as of June 30, 2011 was \$6,870. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 6,870	\$ 206
Totals	<u>\$ 6,870</u>	<u>\$ 206</u>

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Long-term Debt (Continued)

S. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 26,445,000	\$ 2,700,000	\$ 1,180,000	\$ 27,965,000	\$ 1,235,000
General Obligation Refunding Bonds		2,050,000		2,050,000	15,000
Financing Obligations	18,094,707	2,029,302	4,377,143	15,746,866	473,723
Governmental Activities					
Long-term Liabilities	<u>\$ 44,539,707</u>	<u>\$ 6,779,302</u>	<u>\$ 5,557,143</u>	<u>\$ 45,761,866</u>	<u>\$ 1,723,723</u>

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$770,545, FY 2010 was \$1,017,117, and FY 2011 was \$1,070,239.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System (Continued)

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2011, Boyd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Annexation of Boyd County Sanitary Sewer System

On April 1, 2009, Boyd County transferred operations of the rural Boyd County Sanitary Sewer System to Boyd County Sanitation District No. 4 (SD4). SD4 assumed responsibilities for customer billings, maintenance, repair, and utilization of the system. Boyd County retained ownership of sewer facilities, property and equipment, and also maintained responsibility for all existing sewer related debt.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 10. Annexation of Boyd County Sanitary Sewer System (Continued)

A contract, pursuant to the Interlocal Cooperation Act (KRS 65.210 to KRS 65.300), was signed in January 2010, which formally annexed the territorial boundary area of the rural Boyd County Sanitary Sewer System to SD4. The contract transferred all sewer facilities, property and related equipment from Boyd County to SD4, except for those items that are encumbered by debt. Encumbered assets are leased to SD4 at the rate of \$1 per year until such time as the debt secured by such assets is satisfied in full, at which time the assets will also be transferred to SD4.

Note 11. Related Party Transaction

The fiscal court purchased a car from the County Attorney for the Sheriff's office in the amount of \$3,000.

Note 12. Subsequent Events

- A. On July 1, 2011, the Boyd County Fiscal Court issued Tax Anticipation Notes in the amount of \$2,500,000. The purpose of the notes was to meet current expenses and they matured on January 31, 2012.
- B. On August 11, 2011, the Boyd County Fiscal Court issued General Obligation Refunding and Improvement Bonds, Series 2011B (Paramount Arts Center Project) in the principal amount of \$2,130,000 for the purpose of 1) retiring the outstanding Boyd County Capital Projects Inc. First Mortgage Revenue Bonds (Paramount Arts Center Project) Series 2000, 2) financing the acquisition, construction, renovation and equipping of renovations and additions to the 2000 project, and 3) paying the costs of issuing the Series 2011B Bonds. The county has determined it necessary to levy and collect a 2% transient room tax and to apply the proceeds thereof to the retirement of the Series 2011B bonds and for that purpose only. The tax levied shall be collected until the principal and interest of the Series 2011B Bonds have been paid.
- C. On June 29, 2011, the Boyd County Fiscal Court entered into a short-term loan with Kentucky Farmers Bank in the amount of \$300,000, which is included in the short-term debt portion of this audit report. The purpose of the loan was to cover payroll and other operating expenses and it matures on July 29, 2011. As of June 30, 2011, the principal balance of the loan was \$300,000.

Note 13. Prior Period Adjustments

Net assets of the governmental activities as previously reported have been restated and increased by \$35 for a voided check in the Sewer Fund. Net assets of the business-type activities as previously reported have been restated by \$50 for a voided check in the Jail Canteen Fund.

Note 14. Change in Accounting Principle

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB statement 54 have now been included in the general fund. See Note 1.D. The implementation did not cause a restatement to total fund balance or beginning net assets.

BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 9,689,509	\$ 9,689,509	\$ 10,649,995	\$ 960,486
In Lieu Tax Payments			129,636	129,636
Excess Fees	2,613,219	2,613,219	161,507	(2,451,712)
Licenses and Permits	4,600	4,600	2,260	(2,340)
Intergovernmental Revenue	675,640	1,196,711	3,221,316	2,024,605
Charges for Services	45,000	45,000	47,835	2,835
Miscellaneous	513,526	565,191	885,366	320,175
Interest	15,000	15,000	50,310	35,310
Total Revenues	13,556,494	14,129,230	15,148,225	1,018,995
EXPENDITURES				
General Government	4,370,277	6,233,684	4,407,420	1,826,264
Protection to Persons and Property	1,142,000	1,248,602	1,300,583	(51,981)
General Health and Sanitation	384,650	395,659	679,463	(283,804)
Recreation and Culture	625,750	629,250	732,693	(103,443)
Debt Service	147,855	147,855	4,462,968	(4,315,113)
Administration	2,364,966	5,285,858	2,927,685	2,358,173
Total Expenditures	9,035,498	13,940,908	14,510,812	(569,904)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	4,520,996	188,322	637,413	449,091
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		4,333,031	7,413,192	3,080,161
Transfers From Other Funds	940,327	940,327	731,379	(208,948)
Transfers To Other Funds	(6,123,548)	(6,123,905)	(8,689,502)	(2,565,597)
Total Other Financing Sources (Uses)	(5,183,221)	(850,547)	(544,931)	305,616
Net Changes in Fund Balance	(662,225)	(662,225)	92,482	754,707
Fund Balance - Beginning	662,225	662,225	52,394	(609,831)
Fund Balance - Ending	\$ 0	\$ 0	\$ 144,876	\$ 144,876

BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 990,075	\$ 1,412,504	\$ 1,398,710	\$ (13,794)
Charges for Services	20,000	20,000	1,455	(18,545)
Miscellaneous	17,400	30,698	82,714	52,016
Interest	1,000	1,000	1,012	12
Total Revenues	<u>1,028,475</u>	<u>1,464,202</u>	<u>1,483,891</u>	<u>19,689</u>
EXPENDITURES				
Roads	1,872,412	2,308,139	2,472,725	(164,586)
Road Facilities	125,000	125,000	20,372	104,628
Debt Service	211,674	211,674	64,981	146,693
Administration	542,160	542,160	406,068	136,092
Total Expenditures	<u>2,751,246</u>	<u>3,186,973</u>	<u>2,964,146</u>	<u>222,827</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,722,771)</u>	<u>(1,722,771)</u>	<u>(1,480,255)</u>	<u>242,516</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,138,771	1,138,771	1,742,818	604,047
Transfers To Other Funds			(404,241)	(404,241)
Total Other Financing Sources (Uses)	<u>1,138,771</u>	<u>1,138,771</u>	<u>1,338,577</u>	<u>199,806</u>
Net Changes in Fund Balance	(584,000)	(584,000)	(141,678)	442,322
Fund Balance - Beginning	<u>584,000</u>	<u>584,000</u>	<u>114,932</u>	<u>(469,068)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (26,746)</u>	<u>\$ (26,746)</u>

BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 332,000	\$ 332,000	\$ 259,842	\$ (72,158)
Interest	3,000	3,000	792	(2,208)
Total Revenues	335,000	335,000	260,634	(74,366)
EXPENDITURES				
Social Services	26,000	26,000	16,028	9,972
Recreation and Culture	10,000	10,000	10,000	
Roads	126,257	126,257		126,257
Airports	20,000	20,000	20,000	
Total Expenditures	182,257	182,257	46,028	136,229
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	152,743	152,743	214,606	61,863
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(386,891)	(386,891)	(288)	386,603
Total Other Financing Sources (Uses)	(386,891)	(386,891)	(288)	386,603
Net Changes in Fund Balances	(234,148)	(234,148)	214,318	448,466
Fund Balances - Beginning	234,148	234,148	21,435	(212,713)
Fund Balances - Ending	\$ 0	\$ 0	\$ 235,753	\$ 235,753

BOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 3,000	\$ 3,000	\$ 166	\$ (2,834)
Total Revenues	3,000	3,000	166	(2,834)
EXPENDITURES				
General Government	250,000	250,000	116,388	133,612
Total Expenditures	250,000	250,000	116,388	133,612
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(247,000)	(247,000)	(116,222)	130,778
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			28,634	28,634
Total Other Financing Sources (Uses)			28,634	28,634
Net Changes in Fund Balances	(247,000)	(247,000)	(87,588)	159,412
Fund Balances - Beginning	247,000	247,000	104,062	(142,938)
Fund Balances - Ending	\$ 0	\$ 0	\$ 16,474	\$ 16,474

BOYD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

**Reconciliation to the Statement of Revenues, Expenditures
And Changes In Fund Balances**

Total Revenues - Budgetary Basis	\$ 15,148,225
Add: Jail Fund Revenues	950,463
Add: County Emergency Fund Revenues	<u>436</u>
Total Revenues - Modified Cash Basis	<u><u>16,099,124</u></u>
 Total Expenditures - Budgetary Basis	 14,510,812
Add: Jail Fund Expenditures	3,399,618
Add: Payment Made for Vehicle Lease	29,302
Less: Tax Anticipation Notes Paid	<u>(2,400,098)</u>
Total Expenditures - Modified Cash Basis	<u><u>15,539,634</u></u>
 Other Financing Sources (Uses) - Budgetary Basis	 (544,931.00)
Add: Jail Fund Transfers In	2,917,405
Less: Jail Fund Transfers Out	(544,707)
Add: County Emergency Fund Transfers	145,764
Add: Financing Obligation Proceeds	29,302
Less: Tax Anticipation Notes Proceeds	(2,400,098)
Less: Short-term Debt Proceeds	<u>(300,000)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (697,265)</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William C. Stevens, Boyd County Judge/Executive
Members of the Boyd County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of Boyd County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 22, 2012, wherein we issued a qualified opinion on the discretely presented component unit and made reference to the report of other auditors. Boyd County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Boyd County Sanitation District No. 4 as described in our report on Boyd County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the Boyd County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Boyd County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Boyd County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Boyd County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-13, 2011-14, 2011-15, 2011-16 and 2011-17 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyd County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2011-01, 2011-02, 2011-03, 2011-04, 2011-05, 2011-06, 2011-07, 2011-08, 2011-09, 2011-10, 2011-11 and 2011-12.

The Boyd County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 22, 2012

**BOYD COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

**BOYD COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2011

STATE LAWS AND REGULATIONS

2011-01 The Fourth Quarter Report Was Submitted With Substantial Errors

The Uniform System of Accounts requires counties to submit quarterly reports to the Department for Local Government that includes all activity within the funds and should agree to the county's reconciled cash balances. The quarterly report submitted for the fourth quarter of fiscal year ending June 30, 2011 did not agree to reconciled cash balances with substantial errors as shown:

Fund	4th Quarterly Report Balance	Audited Cash Balance	Difference
01 - General	(2,657,568)	144,876	(2,802,444)
02 - Road	(34,511)	(26,746)	(7,765)
03 - Jail	(107,814)	(70,303)	(37,511)
04 - LGFA	235,096	235,753	(657)
06 - State Grants	16,449	16,474	(25)
76 - Capital Projects	48	659,839	(659,791)
77 - Sewer	6,501	664,217	(657,716)
88 - County Emergency	164,079	163,983	96

Auditors made several large adjustments to get the fourth quarter report balance to agree to the cash balances. Unexplained variances of \$33,054, \$7,633 and \$8,074 had to be adjusted on the General Fund, Road Fund, and Jail Fund respectively, to agree to the audited cash balances. Failure to ensure all activity was properly posted in the appropriate account codes to the ledgers, variances were not detected. We recommend the Treasurer ensure that all activity on the bank statements be properly posted to the receipts and disbursements ledgers so they can be accurately included on the quarterly financial reports.

County Judge/Executive's Response: Quarterly reports will be submitted timely in the future.

2011-02 The General And Road Funds Have Deficits Totaling \$88,190

As of June 30, 2011, the General Fund had a deficit balance of \$61,444 and the Road Fund had a deficit balance of \$26,746. Due to a cash shortage at year end, the county had to borrow \$300,000 from Kentucky Farmers Bank on June 29, 2011 to cover payroll and other operating expenses. Purchase orders should not be issued unless adequate funds are available to cover the expenditure. We recommend the county monitor fund balances and ensure funds are not in a deficit.

County Judge/Executive's Response: We have addressed this by way of re-assigning this specific task to one of our clerks.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-03 Expenditures Should Not Exceed Budgeted Appropriations

During our audit we noted that expenditures in the General Fund and Road Fund on the treasurer's fourth quarter report exceeded budgeted appropriations within those funds. Each time the county overdraws on a line item, it may be violating KRS 68.300, which states "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." The county has paid out more than it has budgeted in 98 line items. Purchase requests should not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate budget transfers have been made. We recommend the County Treasurer present line item budget transfers to the fiscal court as necessary to ensure expenditures do not exceed budgeted appropriations.

County Judge/Executive's Response: We are going to make the effort to complete our budget amendments and line item transfers on a more timely basis.

2011-04 All Transfers Should Be Approved By The Fiscal Court

We found that the Treasurer wired funds directly from the Sweep Account to the Capital Projects Fund in the amount of \$325,000. Also, \$6,086 was wired directly from the Sweep Account for bank charges. These transfers were not approved by the fiscal court. As stated in the County Budget Preparation and State Local Finance Officer Policy Manual, all transfers require a court order. We recommend the fiscal court approve all transfers in the future and provide documentation within the minutes. We further recommend that the Treasurer seek approval from the Fiscal Court prior to performing transfers.

County Judge/Executive's Response: We will see that they are approved and part of the minutes.

2011-05 The County Treasurer Should Not Pay Claims Without Fiscal Court Approval

It was brought to our attention that an invoice was paid in the amount of \$1,346 that was not approved by the fiscal court. KRS 68.275 says that all claims should be presented to the fiscal court for review prior to payment. The payment was made on March 16, 2011 and on April 5, 2011 it was noted in the fiscal court minutes to not pay this invoice. We recommend the County Treasurer not pay invoices without fiscal court approval.

County Judge/Executive's Response: We will be more careful of this in the future.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-06 Truck License Receipts Should Be Deposited Into The Road Fund

KRS 47.020 requires truck license receipts to be deposited into the county's road fund. The county received \$185,066 for truck license receipts during fiscal year ending June 30, 2011. However, these funds were deposited into the General Fund. The Road Fund is restricted for road and bridge construction and maintenance. Since transfers from the General Fund to the Road Fund totaled \$1,742,818; the amount restricted for roads was handled properly. We recommend the county deposit truck license receipts into the Road Fund in the future.

County Judge/Executive's Response: More checks and balances by a second person will be implemented to keep this from happening.

2011-07 Local Government Economic Assistance Funds Should Be Spent Properly

The county received \$246,722 in the Local Government Economic Assistance (LGEA) Fund for coal impact. KRS 42.470 and 42.455(2)(c) requires the expenditure of funds received by non-coal producing counties impacted by the transport of coal be limited to public transportation. We determined that \$3,599 was spent from the LGEA Fund on Social Services and Recreation and Culture categories in excess of the amount allowed. We recommend the county ensure that monies spent from the LGEA fund are in compliance with KRS 42.470 and 42.455(2)(c).

County Judge/Executive's Response: Care will be exercised in the future regarding these expenditures.

2011-08 Quarterly Financial Reports Were Submitted Late To The Department Of Local Government

In accordance with KRS 68.360(2), the State Local Finance Officer requires the quarterly financial reports to be submitted to their office by the 15th day following the close of the quarters ending September 30, December 31, March 31, and June 30. However, the quarterly reports submitted during the year were all submitted late. We recommend the Treasurer submit each quarterly financial report by the 15th day following the close of the quarter.

County Judge/Executive's Response: To be corrected in the future.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-09 The County Should Bid All Expenditures Over \$20,000

KRS 424.260 says when the county makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. We found an instance where bridge materials were purchased in the amount of \$45,007 and was not properly bid during fiscal year ending June 30, 2011. Since this expenditure was over \$20,000, the county should have advertised for bids. We recommend the county comply with KRS 424.260 and advertise for bids for purchases over \$20,000.

County Judge/Executive's Response: Will correct that procedure in the future.

2011-10 Invoices Should Be Paid Within Thirty Working Days

We found four invoices totaling \$18,310 that were not paid timely. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days in the future.

County Judge/Executive's Response: Every effort will be made to do this.

2011-11 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 says the Fiscal Court should review the Administrative Code annually during the month of June. However, we could not find where the Fiscal Court performed this review. We recommend that the Fiscal Court review the Administrative Code, Ethics Code and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

County Judge/Executive's Response: Will put it on the agenda for the first court meeting of each fiscal year.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-12 The County Treasurer Should Properly Prepare An Annual Settlement And Present It To The Fiscal Court For Approval

The County Treasurer did not prepare an annual statement in accordance with KRS 424.220 nor was a settlement presented to the fiscal court for approval as required by KRS 68.020(5). KRS 424.220 requires the County Treasurer to “prepare an itemized, sworn statement of all funds collected received, held, or disbursed during the fiscal year.” The financial statement is required to show:

- “the total amount collected and received from each individual source,
- the total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all non-elected county employees shall be shown as lump sum expenditures by category such as road department, jails, solid waste, public safety, and administrative personnel.”

Further, KRS 68.020(5) requires the County Treasurer to make a full and complete settlement with the fiscal court within 30 days of the close of the preceding year. We recommend the County Treasurer fully comply with KRS 424.220 and KRS 68.020(5) by properly preparing an annual statement and presenting a settlement to the fiscal court for approval in the future.

County Judge/Executive's Response: This will be prepared in a timely manner in the future.

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-13 The Fiscal Court Should Strengthen Internal Controls Over Accounting Records

The fourth quarter financial statement did not agree to bank records. In addition, the receipt and disbursement ledgers were not accurate. Monthly bank reconciliations are an internal control that would detect these errors. All items included on the bank statements should accounted for on the receipts and disbursements ledgers. As a result of weak internal controls:

- Disbursements were overstated by \$2,390,709 because the payment of the tax anticipation notes was posted twice.
- A transfer from the Capital Projects Fund to the General Fund in the amount of \$446,270 was not posted.
- Transfers from the General Fund to the Capital Projects Fund totaling \$325,000 were not posted.
- We found deposits of \$207,363 for the General Fund and \$29,436 for the Jail Fund that were not posted.
- It was determined that numerous mistakes had occurred with payroll.
- Payments to the debt service accounts were incorrectly coded in the general fund when they should have been coded as transfers out.

To strengthen controls, someone other than the Treasurer could be agreeing amounts posted to the ledgers to the bank statements to ensure every item is posted and to the proper account/fund. Also, someone other than the Treasurer could be doing the bank reconciliations or at least reviewing them and signing off to document so. We recommend the Fiscal Court strengthen the process of reviewing the Treasurer's financial records to ensure that accurate and complete.

County Judge/Executive's Response: We are assigning the verification of payables and receipts to a separate person prior to the treasurer's bank reconciliations.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-14 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll Processes

The Fiscal Court should maintain adequate segregation of duties to ensure functions are separated and not controlled by one individual. The County Treasurer submits the information necessary to process the payroll to the company the county outsourced preparation of payroll. In addition, the Treasurer prepares the documentation, including the checks to transfer the monies from the County's Funds into the payroll revolving account, posts the payroll expenditures to the appropriations ledger and reconciles the payroll bank account. There are not any documented review processes or compensating controls that exist over these areas. Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, inaccurate financial reporting and potential fraud risks. We recommend the Fiscal Court separate these payroll functions to achieve an appropriate level of segregation of duties or implement the following compensating controls over these areas.

- Have someone other than the Treasurer review or re-compute the payroll bank reconciliation. Outstanding items should be reviewed. The review/re-computation should be documented.
- Have someone other than the Treasurer trace balances on the quarterly reports to the general ledger in order to validate all payroll amounts were posted and reported properly on the financial statements. This process should be documented.
- Have someone other than the Treasurer review payroll prior to submission to the outsourced payroll company.

County Judge/Executive's Response: We are implementing checks and balances regarding payroll.

2011-15 The Jail Lacks Adequate Segregation Of Duties Over Jail Canteen Transactions

The bookkeeper for the Jail Canteen prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliations. The Jailer or another individual did not document oversight of any of these activities. Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting which could occur but go undetected. The Jailer should offset the lack of adequate segregation of duties by implementing compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, the Jailer should compare the monthly reports to the receipts and disbursements ledgers for accuracy. We recommend the Jailer initial and date the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursements ledgers to document this review.

County Judge/Executive's Response: Treasurer will review the jail bank reconciliation monthly.

BOYD COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-16 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis

The payroll revolving account was not reconciled on a monthly basis. We could not find any evidence that monthly reconciliations were completed starting April 2011. A revolving account is a clearing account where all funds deposited are paid out and the balance can be reconciled to zero at any given time. Auditors performed a bank reconciliation and determined as of June 30, 2011, the payroll revolving account had a deficit balance of \$1,182. The county should implement procedures to determine all payroll account deposits agree to the total amount of the payroll checks issued for each payroll and document the agreement. We recommend that the payroll revolving account be reconciled to zero on a monthly basis in order to resolve any discrepancies, errors, or omissions that may arise.

We completed accounting procedures involving preparing a bank reconciliation of the revolving payroll account for June 30, 2011. We did not complete reconciliations for all months just on fiscal year end date. Therefore, there could be additional liabilities such as old outstanding checks we are unaware of. Had these procedures been completed by accounting personnel as required, audit costs would have been reduced accordingly. We recommend the county monitor this account closely to ensure there are adequate funds available to cover all checks written.

County Judge/Executive's Response: This account will be reconciled monthly.

2011-17 Timesheets Should Be Properly Approved

During our review of timesheets, we found that timesheets were not signed by a supervisor. All employee timesheets should be signed by a supervisor to document that control procedures have been performed to ensure the accuracy of the timesheets submitted by employees. The County Judge/Executive or designated supervisor should review and sign-off on all timesheets in order to substantiate hours worked. We recommend all timesheets be reviewed and signed by a supervisor to document the control procedures have been performed.

County Judge/Executive's Response: Will follow through with this in the future.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

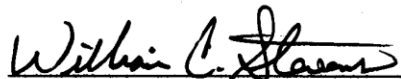
BOYD COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

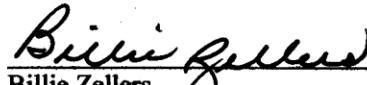
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOYD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Boyd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William C. Stevens
County Judge/Executive



Billie Zellers
County Treasurer

